



May 20, 2005
Meeting Summary of the
Financial Affairs Committee

1. Participants

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| --Russell Harrington, Westlands WD | --George Senn, CVPWA |
| --Lynn Hurley, Santa Clara Valley WD (call-in) | --Mike Hagman, FWA |
| --Lee Emrick, Colusa County WD | --Anthea Hansen, Del Puerto WD |
| --Eric Limas, Lower Tule River ID (call-in) | --Mark Oosterman, SMUD (call-in) |
| --Henry McLaughlin, City of Fresno | --Ed Roman, SMUD |
| --Robert Stackhouse, CVPWA | --Serge Birk, CVPWA (call-in) |
| --Larry Bauman, BOR | --Jesus Reynoso, BOR |
| --Katherine Thompson, BOR | --Donna Tegelman, BOR |
| --Judy Tapia, BOR (call-in) | |

2. Opening Business

The May 20 meeting was held at the Reclamation Office Building in Sacramento. The meeting began at 9:30 a.m. and concluded around noon. The agenda was reviewed and approved, with one item being rescheduled for the next FAC meeting—Historical Advance Payment Account Reconciliation. The next meeting will be held on June 17 from 9:30-11:30 a.m. at the Reclamation Office Building, 2800 Cottage Way, Sacramento.

3. 2004 FAC Issues Matrix

A. Budget Workshops – Refining Customer Participation. Larry Bauman said that the IT group within Reclamation is working on a customer participation document that will contain actual budget amounts as part of the 5-year Budget overview document that is provided each year to the FAC. The document will be reviewed within the Region and then will be sent to the Area Offices for comment sometime in early June. **Action Item:** – Russ to follow up with Craig Muehlberg, Regional Budget Officer, to schedule a pre-2006 budget review as part of the fall budget workshop.

B. BOR-WORKS Water Accounting Program Development. Larry Bauman reported that work on the water transfer module has been completed and is undergoing internal testing. It will soon be user-tested by Ratesetting. He estimated that it will be a least another year before work is completed on all of the BOR-WORKS modules.

C. Water Rate Transfer Policy Development. Donna Tegelman said that the Water Transfer Rate Policy document was recently completed and approved by Regional management. She said that the crediting issue has been resolved. Incremental revenues resulting from water transfers will be credited to those specific capital facilities whose costs were identified as incremental costs involved in the transfer. She said that Reclamation needs to explain to all CVP contractors how the incremental revenue crediting will work. She indicated that a workshop might be necessary. She also said that a “how to” manual needs to be developed that contains examples that will clearly show how the crediting will work. She mentioned that Ara Azhderian, SLDMWA had agreed to assist in developing such a manual, but she was not sure how progress has been made.

D. Historical Advance Payment Account Reconciliation. Larry had nothing to add. He will provide an update at the June FAC meeting.

E. Security Cost Reimbursability. Katherine Thompson said that the Reclamation report on Reimbursement of Security Costs was submitted to the Appropriations Conference Committee by May 1, 2005, as directed by the Conference Report on 2005 Appropriations. Ed Roman said that he had a copy of the Security Cost Report that he would send out to the FAC members. The report concluded that all fortification costs would continue to be non-reimbursable as would the costs of the anti-terrorism program, however increased guard and patrol operations costs resulting from the 9/11 terrorist attack would be allocated across project purposes and much of the costs would become reimbursable. The report identifies \$20.9 million as the cost increase for guards and patrols in all Reclamation Regions for 2005, \$19.1 million of which would have been reimbursable had Reclamation elected to make them reimbursable in 2005. According to the report the 2006 increased costs for guards and patrols will be subject to reimbursability in 2006. Ed was dismayed by the fact that the CVP Power function was allocated \$3.9 million (45%) of the \$5.6 million of reimbursable costs that were allocated to the CVP. CVP Irrigation was allocated \$1.4 million and M&I \$0.24 million. The FAC will continue to monitor this issue.

4. CVPIA/AFRP Status Update. Serge Birk updated the FAC on the CVPIA Anadromous Fish Restoration Program (AFRP). He pointed out that the USFWS has not developed indicators or measures of success to evaluate program effectiveness and progress. He said that a group of interested and concerned CVP Water Association members are reviewing past CVPIA investments to determine what programs require future funding and prioritization in order to meet CVPIA mandates to AFRP “doubling goals. He pointed out the importance of the FAC collaborating on future budget decisions relevant to implementation of CVPIA requirements in the out years. The FAC requested that Serge update the group on a regular basis and provide recommendations of high priority projects to the CVP Water Association membership so that they would be noted in future out year budgets. **Action Item:** - Serge to update the FAC on a regular basis.

5. Technical Service Center Costs. Mike Hagman informed the group that the Family Farm Alliance is looking into cost containment and accountability for work done by Reclamation’s Engineering and Research Center (E&R) in Denver, Colorado. The Alliance is concerned about a number of instances where its members have reported that they have been charged more for

engineering services provided by the E&R Center than they would have had they contracted with private consultants or done the work themselves. Mike passed out a copy of testimony the Family Farm Alliance provided to the U.S. Committee on Energy and Natural Resources that outlined its concerns regarding cost containment and accountability for work done by Reclamation. The testimony included five case outlining problems that districts have faced when dealing with the E&R Center. The Alliance is looking for additional examples outlining the experiences other districts have had with the Center, both good and bad. Mike will be soliciting comments from CVP contractors within the next few days.

4. Capital/Deficit Rate Development. Jesus Reynoso, BOR, passed out copies of spreadsheets comparing M&I and Irrigation delivery projections based on a 5-year average of past actual water deliveries, projections based on a 10-year average of past actual water deliveries, and projections based on the Programmatic Environmental Impact Statement (PEIS) prepared for the CVPIA, with the projected deliveries used to set the actual 2005 rates. The various spreadsheets compared the resulting rates and water deliveries for each of the M&I and Irrigation water contractors. George passed out similar spreadsheets that, in addition to comparing delivery projections, computed and compared the capital cost recovery that would result from using the various projections. After considerable discussion as to the merits of using the various delivery projections for setting annual capital/deficit rates, Larry Bauman said that his staff would consider our comments and would begin preparing a Capital/Deficit Ratesetting proposal for Regional Management with the next few weeks. He said that he intends to use the new Capital/Deficit Ratesetting methodology for setting the 2006 rates.